ANNUAL REPORT for the year ended June 30, 1968

FLEET manufacturing limited, Fort Erie, Ontario, Canada

DIRECTORS

Ronald K. Fraser
President and Chief Executive Officer
Fleet Manufacturing Limited, Fort Erie
Ronark Developments Limited, Hamilton

Ralph C. C. Henson
Director
Standard Securities Limited, Toronto

Samuel Lax
President
Lax Iron & Steel Limited, Hamilton

C. Norman Lucas
President and General Manager
Dynamic Industries Inc., Quebec

D. Donald C. McGeachy
Consultant
Director and Past President
Calumet and Hecla of Canada Ltd., London

G. Philip Morphy
Executive Vice-President and Secretary
Fleet Manufacturing Limited, Fort Erie

J. Frederick Taylor
President and General Manager
Computing Devices of Canada Ltd., Ottawa

OFFICERS

Ronald K. Fraser
President and Chief Executive Officer

G. Philip Morphy
Executive Vice-President and Secretary

James K. Oldreive
Director of Sales

Leonard Maloney
Director of Manufacturing

John Graham
Treasurer

Roy Dear
Controller

AUDITORS

Clarkson, Gordon and Company
Hamilton, Ontario

TRANSFER AGENTS

Guaranty Trust Company of Canada
Toronto, Ontario
Montreal, Quebec
Vancouver, British Columbia

BANKERS

The Toronto-Dominion Bank
Queen Street and Ontario Avenue
Niagara Falls, Ontario

Westinghouse Airborne Side—looking Radar Reflector.
Left to right—R. Dear, G. P. Morphy, R. K. Fraser.

Kearney & Trecker Milwaukee-Matic.
Left to right, foreground—J. K. Oldreive, L. Maloney, J. Graham.

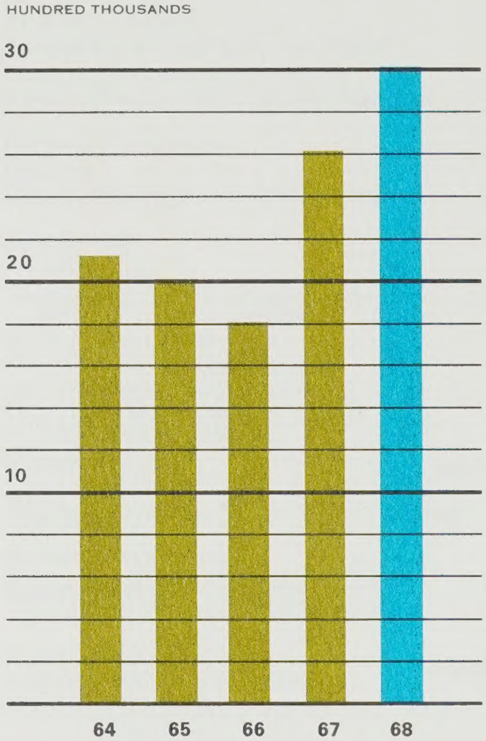
FINANCIAL HIGHLIGHTS

EARNINGS PER COMMON SHARE:	1968	1967
From operations	$ .21	$ .21
From tax savings through utilization of losses of prior years	.01	.17
Total earnings per common share	$ .22	$ .38
After giving effect to conversion privileges of the preferred shares—		
From operations	$ .17	$ .17
From tax savings through utilization of losses of prior years	.01	.13
Total earnings per common share	$ .18	$ .30
WORKING CAPITAL	$1,580,221	$1,275,439
NEW FACILITIES AND EQUIPMENT	$ 249,133	$ 217,328
LONG TERM DEBT	$ 266,869	$ 363,153
SHAREHOLDERS' EQUITY	$2,996,146	$2,568,165
BOOK VALUE PER COMMON SHARE AT YEAR-END:		
Before giving effect to conversion privileges of the preferred shares	$ 1.19	$ .97
After giving effect to conversion privileges of the preferred shares	$ 1.15	$ .98

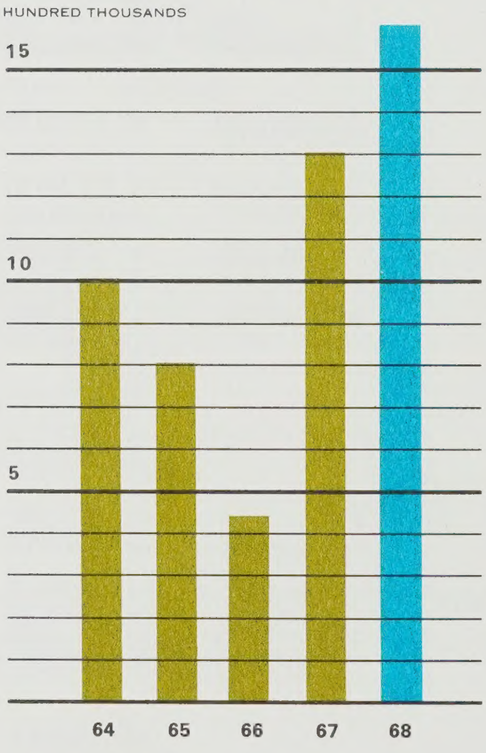
TO THE SHAREHOLDERS

Report for the year ended June 30, 1968

SHAREHOLDERS' EQUITY



WORKING CAPITAL



The consolidated profit from operations for the year remained constant with increased profit from the real estate group offsetting lower returns from manufacturing.

MANUFACTURING

In a very competitive market, your Company was able to maintain manufacturing volume principally by additional follow on orders from its aerospace customers and by increasing volume in the field of sonar hardware. Also, during the year a significant new customer was added—Westinghouse Electric Corporation, Defence and Space Centre, Baltimore, Maryland. The backlog as at June 30, 1968 was $9,632,000 compared to $7,145,000 for the previous year.

Since the year end, new orders have been received from Edo Corporation, College Point, New York, for hull mounted sonar domes and from Hughes Tool Company, Aircraft Division, Culver City, California, for the design and production of thermoplastic floats for the Hughes 500 helicopter. At the present time, Fleet is concentrating on negotiations with major aerospace companies in the U.S.A. and Canada to acquire a new major component program. In particular, it has been announced that the airbuses to be built by McDonnell Douglas and Lockheed will result in significant subcontract orders, but at this stage of their development it is premature for specific releases.

During the year, $190,769 was expended at Fort Erie for capital additions to house new power transformers, an addition to the sheetmetal department and new machine tools.

In order to improve our capacity and ability to obtain new work, Fleet received approval from the Ontario Development Corporation for plant expansion up to $790,000. The Corporation has agreed to provide a long term mortgage of $300,000 and a forgivable loan of $218,333, the balance to be provided by Fleet. The main expansion will be associated with the bonding facility which has been an important contributor to the recognition of Fleet as a supplier of aerospace components.

To improve our machining capability, recent approval has been received from the Department of Defence under the Modernization Industry Vote to purchase specialized equipment, primarily four numerically controlled milling machines for an amount not exceeding $838,097. The first machine was actually installed in September and is now in production. Under this plan the Crown and Fleet share the costs equally with Fleet repaying its share over a five year period.

Fleet is also developing working relationships with the Centre for Applied Research and Engineering Design at McMaster University, and with the Institute for Aerospace Industries of the University of Toronto. A study of future aerospace technology affecting Fleet, which involved visits to major aerospace companies in Canada and the U.S.A. has been completed and is being used for future planning.

With an enhanced reputation as a supplier and a sound financial base, it is anticipated that your Company can continue to participate to an even greater extent in the rapidly expanding aerospace industry. It should be noted, however, that the new generation of aircraft involve ever increasing technology and skills and because of their complicated nature, new programs are slow to develop.

lans for growth, therefore, also encompass application of our kills to other areas and the possibility of corporate acquisitions.

EAL ESTATE GROUP

ales for the real estate group increased by 15% and consolidated rofits improved by 17%. In the past year, a higher percentage of ales resulted from development of corporate assets but there was lso a significant increase in contracts from the Ontario Housing Corporation.

Currently, the following construction is in progress

Burlington— 57 rental units in Georgian Court Estates Limited (50% affiliated company)
London —136 family units for Ontario Housing Corporation
— 83 senior citizens units for Ontario Housing Corporation
Chatham — 50 senior citizens units for Ontario Housing Corporation

The servicing of Cherry Heights subdivision in the Township of altfleet is proceeding on schedule. Since the year end, 23 fully erviced single family lots have been sold and an offer has been ccepted for the southerly 44.5 acres, which is zoned for single amily houses.

Ronark is planning, during the coming year, to make additional tarts as follows:

Township of Saltfleet— 45 rental townhouses— Cherry Heights
Burlington — 11 rental units— Georgian Court Estates Limited
London —127 senior citizens units— Ontario Housing Corporation

nd, assuming satisfactory mortgage financing is available,

Burlington—121 Units High Rise Apartments— Georgian Court Estates Limited
Ottawa —180 Units High Rise Apartments— Amesbrooke Investments Limited (50% affiliated company)

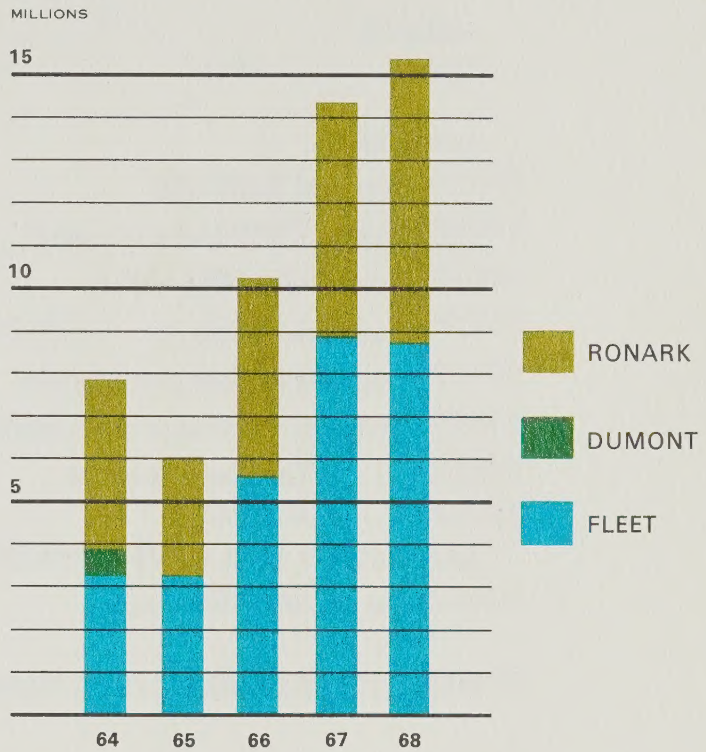
In addition, we are currently preparing bids for Ontario Housing orporation in four Ontario cities.

Ronark is now in a position to expand into new areas of land evelopment and construction, and is making a complete survey f the possibilities of new acquisitions. While there is still grave oncern about the lack of adequate mortgage financing for esidential construction, in the decade ahead Ronark should be ble to participate in the unprecedented growth predicted for esidential construction.

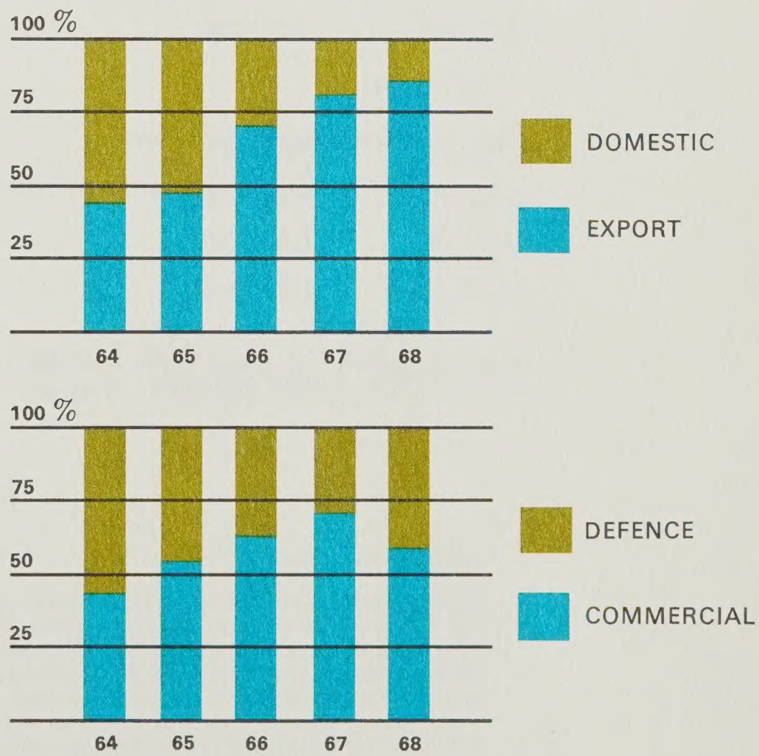
Management wishes to express its gratitude to the employees of leet and Ronark for their dedication and its thanks to the Board of irectors for their thoughtful advice and support.

. K. Fraser,
resident.

SALES



ANALYSIS OF SALES



FLEET manufacturing limited

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

June 30, 1968

(with comparative figures for 1967)

ASSETS

	1968	1967
CURRENT:		
Accounts receivable	**$2,023,764**	$1,233,477
Due from affiliated companies	**610,509**	316,413
Income taxes recoverable		9,558
Inventories (note 3)	**3,046,724**	2,432,361
Prepaid expenses and deposits	**87,544**	83,660
Cash surrender value of life insurance	**41,800**	44,569
Total current assets	**5,810,341**	4,120,038
LAND HELD FOR DEVELOPMENT—at the lower of cost and net realizable value	**269,170**	256,212
INVESTMENTS AND LONG TERM RECEIVABLES (note 4)	**725,579**	849,448
FIXED—at cost (note 5):		
Land, buildings, machinery and equipment	**2,705,995**	2,500,547
Less accumulated depreciation	**1,812,462**	1,693,095
	893,533	807,452
OTHER:		
Special refundable tax	**23,512**	23,700
Discount on debentures less amounts written off		1,067
	$7,722,135	$6,057,917

On behalf of the Board:
RONALD K. FRASER, Director
G. PHILIP MORPHY, Director

AUDITORS' REPORT

To the Shareholders of Fleet Manufacturing Limited:
We have examined the consolidated balance sheet of Fleet Manufacturing Limited as at June 30, 1968 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the consolidation of certain wholly-owned subsidiaries referred to in note 1.

Hamilton, Canada,
October 10, 1968.

Clarkson, Gordon & Co.
Chartered Accountants.

LIABILITIES

	1968	1967
CURRENT:		
Bank indebtedness (note 6)	**$1,583,311**	$ 987,665
Accounts payable and accrued charges	**1,868,947**	1,447,379
Income and other taxes payable	**294,650**	45,190
Liability to service land sold or held for resale (estimated)	**476,312**	57,412
7% demand notes—due to directors		147,000
Mortgages payable		122,553
Current instalments on long term debt (note 7)	**6,900**	37,400
Total current liabilities	**4,230,120**	2,844,599
DEFERRED INCOME TAXES	**229,000**	282,000
LONG TERM DEBT (note 7)	**266,869**	363,153
SHAREHOLDERS' EQUITY:		
Capital stock (note 8)— 6% cumulative redeemable convertible preference shares with a par value of $10 each— Authorized and issued—60,000 shares	**600,000**	600,000
Common shares without nominal or par value— Authorized—5,000,000 shares, of which 1,921,000 shares are issued	**1,640,594**	1,640,594
	2,240,594	2,240,594
Retained earnings	**755,552**	327,571
	2,996,146	2,568,165
	$7,722,135	$6,057,917

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1968

(1) **Basis of consolidation—**

The consolidated financial statements include the accounts of all wholly-owned subsidiaries. The affiliated companies which are owned to the extent of 50% by Ronark Developments Limited are not consolidated and are included in the balance sheet under the item "Investments and long term receivables" and valued at cost, which is less than estimated realizable value.

In previous years the financial statements of Ronark Developments Limited and its subsidiaries were not consolidated with those of the parent company but the investment was included at the net equity value. In the accompanying financial statements, the assets and liabilities and results of operations for the year ended June 30, 1967 have been re-stated on a fully consolidated basis.

(2) **Accounting basis for determination of income—**

Gross profit on contracts is recorded as follows:

(a) On contracts extending beyond one year billable at a fixed price per unit, the proportion of total estimated gross profit for the entire contract applicable to the number of units shipped.

(b) On other contracts billable at a fixed price per unit, the actual gross profit applicable to units shipped.

(c) Other contracts on the percentage of completion method.

Where it is expected that a loss will be incurred on completion, provision is made for the total estimated loss. In the case of contracts extending beyond one year, revisions in cost and profit estimates (which can be significant) are reflected in the accounting period in which the relevant facts become known.

(3) **Inventories—**

Inventories are valued at the lower of cost and net realizable value and consist of the following:

	1968	1967
Manufacturing:		
Work in process (after deducting progress payments of $312,474 in 1968 and $275,661 in 1967)	**$1,479,284**	$1,355,682
Raw materials and supplies	**588,785**	403,295
	2,068,069	1,758,977
Real estate group:		
Materials, work in process and finished construction (after deducting deposits from customers and advances under mortgage commitments of $13,204 in 1968 and $32,970 in 1967)	**132,031**	276,701
Land for resale—		
Serviced	**842,055**	146,302
Unserviced	**4,569**	250,381
	978,655	673,384
	$3,046,724	$2,432,361

(4) **Investments and long term receivables—**

This consists of the following:

Investment in affiliated companies—at cost (which is less than estimated realizable value)	**$338,750**	$338,750
Amounts due on land sales:		
First mortgage on 75.2 acres of land, bearing interest at 6% per annum and repayable at the rate of $12,000 per acre as lands are sold, provided that repayments shall not be less than $100,000 annually to December 31, 1968 with the remainder to be paid by June 30, 1971	**392,284**	500,000
Irrevocable bank letter of credit bearing interest at 6% due $25,000 annually with the remainder, $30,000 due May 15, 1970	**55,000**	80,000
Residential mortgages receivable	**64,545**	55,698
	850,579	974,448
Less instalments included in current accounts receivable	**125,000**	125,000
	$725,579	$849,448

5) **Fixed assets—**
Fixed assets consist of the following:

	1968			1967
	Cost	Accumulated depreciation	Net book value	Net book value
Manufacturing:				
Land (approximately 162 acres in Fort Erie)	$ 43,693		$ 43,693	$ 43,693
Buildings	822,572	$ 525,188	297,384	242,646
Machinery and equipment	1,679,659	1,206,014	473,645	480,317
	2,545,924	1,731,202	814,722	766,656
Real estate group:				
Furniture, fixtures, equipment and leasehold improvements	160,071	81,260	78,811	40,796
	$2,705,995	$1,812,462	$893,533	$807,452

Depreciation is computed as follows:	
On diminishing balance—Buildings	5% or 10%
Machinery, furniture and equipment	20% or 30%
Automobiles	30%
On straight-line basis—Leasehold improvements	10%

6) **Bank indebtedness—**
Accounts receivable, inventories and shares of affiliated companies have been pledged to the companies' bankers as collateral for the bank indebtedness.

7) **Long term debt—**
This consists of the following:

	1968	1967
Manufacturing:		
Fleet Manufacturing Limited—		
6% chattel mortgage repayable in equal annual instalments of $6,900 October 1, 1968 to 1970	$ 20,700	$ 27,600
Conditional sale contract repayable $14,384 on July 1, 1969 with the remainder due July 1, 1970	28,069	42,453
5% convertible sinking fund debentures		30,500
	48,769	100,553
Real estate group:		
Grisenthwaite Construction Company Limited— 7% debentures due December 31, 1969	150,000	150,000
W. Grisenthwaite Developments Limited— 7% debentures due December 31, 1969	75,000	75,000
A. B. Taylor Construction Limited— 7% debentures due December 31, 1968		75,000
	225,000	300,000
	273,769	400,553
Less instalments due within one year shown as a current liability	6,900	37,400
	$266,869	$363,153

The 7% debentures in the real estate group are subordinated to bank indebtedness.

8) **Capital stock—**
(a) The 60,000 6% preference shares are convertible into common shares up to December 31, 1972 and accordingly 600,000 common shares are reserved for such possible conversion.
(b) No provision has been made in the accounts as at June 30, 1968 for arrears of cumulative dividends on preference shares, $108,000.

9) **Retirement plans—**
Total unamortized past service costs under retirement plans of the companies at June 30, 1968, as estimated by independent actuaries, amounted to $505,000. These costs, which are not included in the accompanying financial statements, are being amortized and charged to operations over the period to 1989.

0) **Subsequent events—**
(a) Subsequent to June 30, 1968, a wholly-owned subsidiary, Ronark Developments Limited, guaranteed the interim bank indebtedness of a 50%-owned affiliated company to the extent of $700,000 for a rental project financed by a N.H.A. completion loan.
(b) The directors have authorized capital expenditures of approximately $1,000,000 of which $840,000 will be financed by federal government assistance.

1) **Statutory information—**
The aggregate direct remuneration paid or payable by the company and its consolidated subsidiaries to the directors and senior officers of the company amounted to $127,000 for the year.

FLEET manufacturing limited

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended June 30, 1968

(with comparative figures for 1967)

		1968		1967
Sales:				
Manufacturing		$ 8,700,556		$ 8,785,306
Real estate group		6,475,666		5,632,892
		$15,176,222		$14,418,198
Income from operations before the following		$ 1,109,282		$ 1,041,692
Depreciation	163,052		154,135	
Interest and discount on funded debt	26,299		29,314	
Directors' fees	5,950	195,301	2,600	186,049
Income before taxes		913,981		855,643
Income taxes:				
Current		537,000		338,000
Deferred		(53,000)		82,000
		484,000		420,000
Net income before extraordinary item		429,981		435,643
Extraordinary item:				
Reduction in income taxes on application of losses of prior years		34,000		330,000
Net income for year		463,981		765,643
Retained earnings (deficit) at beginning of year		327,571		(438,072)
		791,552		327,571
Deduct dividends paid on preference shares		36,000		
Retained earnings at end of year		$ 755,552		$ 327,571

FLEET manufacturing limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended June 30, 1968

(with comparative figures for 1967)

SOURCE OF FUNDS:	1968	1967
Operations—		
Net income for year	$ 463,981	$ 765,643
Depreciation	163,052	154,135
Deferred income taxes	(53,000)	82,000
Other charges not requiring an outlay of funds	1,067	31,961
	575,100	1,033,739
Reduction in long term receivables	123,869	136,118
	698,969	1,169,857
APPLICATION OF FUNDS:		
New facilities and equipment (net)	249,133	217,328
Additions to land for development	12,958	10,207
Reduction in long term debt	96,284	75,826
Dividends paid	36,000	
Special refundable tax	(188)	23,700
	394,187	327,061
INCREASE IN WORKING CAPITAL	304,782	824,796
WORKING CAPITAL BEGINNING OF YEAR	1,275,439	432,643
WORKING CAPITAL END OF YEAR	$1,580,221	$1,275,439

OFFICERS

HEAD OFFICE—20 Hughson Street South, Hamilton

Ronald K. Fraser
President and Chief Executive Officer

Donald G. MacDonald
Executive Vice-President

Howard C. Poole
Vice-President—Finance

William J. C. Mitchell
Vice-President—Eastern Division

Frank T. Wilkinson
Vice-President—Land Development

William C. Hesler
Treasurer

E. Delbert Hickey
Secretary

LONDON OFFICE—609 William Street, London

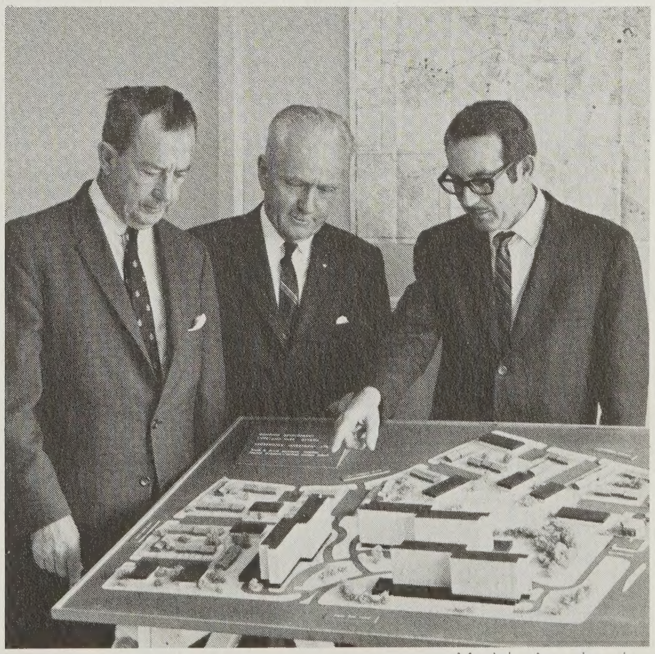
Donald G. Ness
Vice-President—Western Division

OTTAWA OFFICE—1515 Baseline Road, Ottawa

A. Banfield Taylor
Vice-President

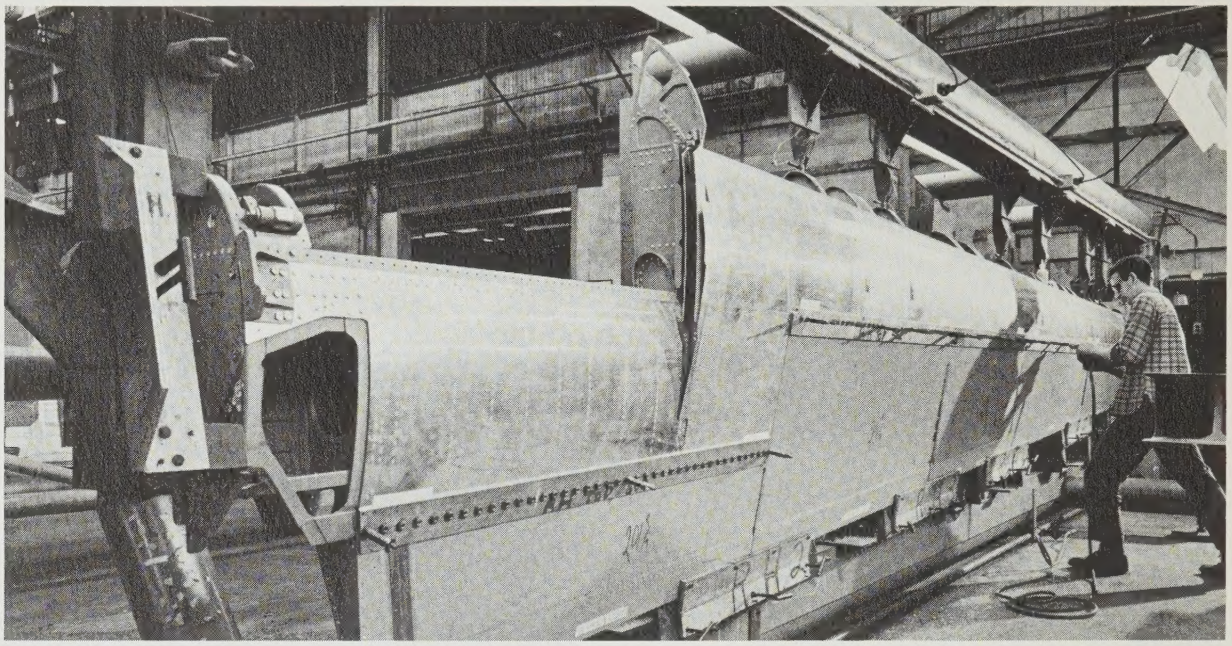
Model—Cherry Heights.

Left to right—R. K. Fraser, D. G. MacDonald, W. J. C. Mitchell, D. G. Ness, F. T. Wilkinson.

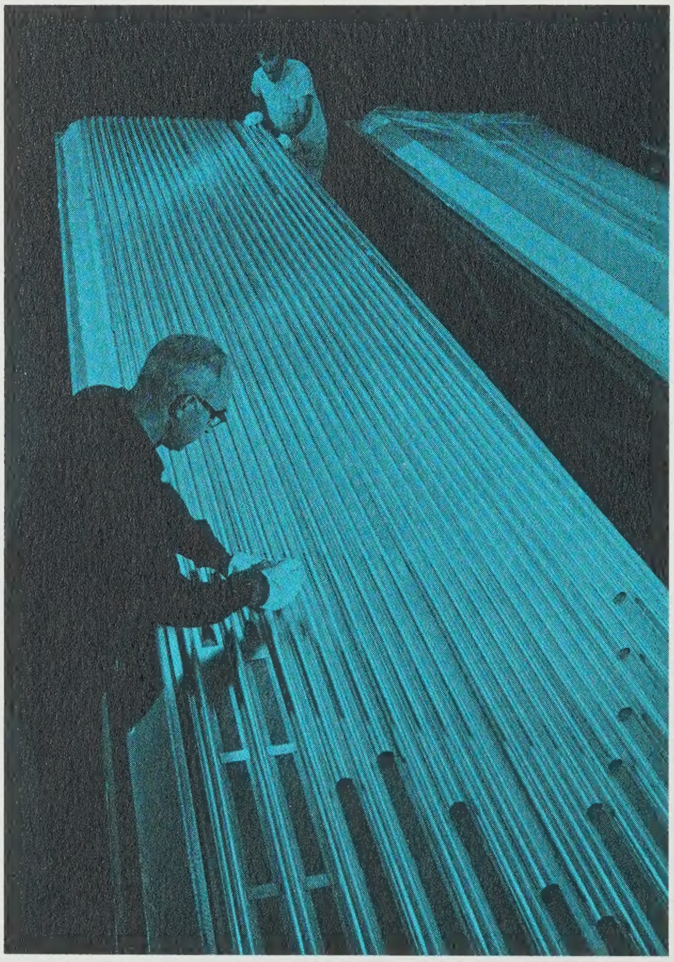


Model—Amesbrooke.

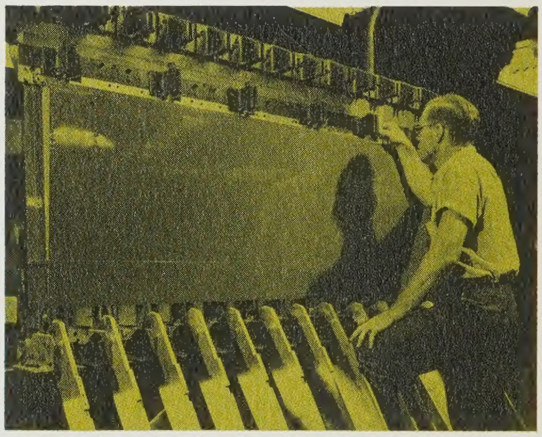
Left to right—A. B. Taylor, H. C. Poole, W. C. Hesler.



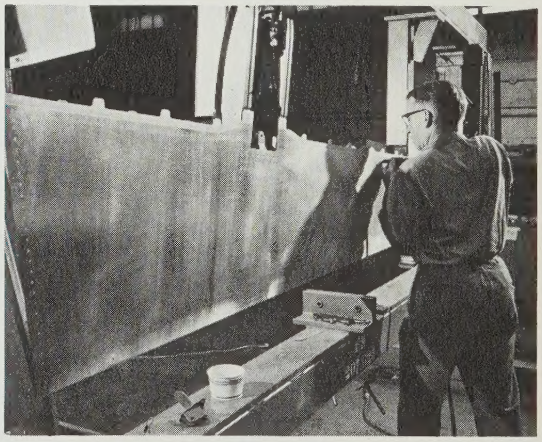
Flap—McDonnell Douglas DC9



Wing Skin—de Havilland C-6 Twin Otter



Flap—McDonnell Douglas A4E Skyhawk



Outboard Flap—Grumman A-6A Intruder

Suppliers to:

AEROSPACE

de Havilland Aircraft of Canada Limited
Toronto, Ontario
Douglas Aircraft Company of Canada Limited,
Toronto, Ontario
McDonnell Douglas Corporation,
Long Beach, California
Grumman Aircraft Engineering Corporation,
Bethpage, New York
Hughes Tool Company
Aircraft Division, Culver City, California

SONAR

Department of Defence Production,
Government of Canada
Edo Canada Limited,
Cornwall, Ontario
Edo Corporation,
College Point, New York
General Electric Company,
Syracuse, New York

RADAR

Department of Transport,
Government of Canada
General Electric Company,
Syracuse, New York
Westinghouse Electric Corporation,
Defence and Space Centre, Baltimore, Maryland